

PERAC AUDIT REPORT



Danvers Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2014



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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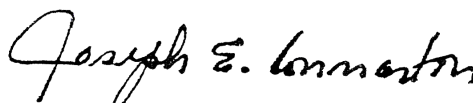
January 31, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Danvers Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

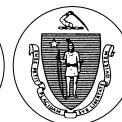
In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Amy Chow and George Nsia who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

3(8)(c) Billings:

Since 1996, Board staff had been issuing bills pursuant to G.L. c. 32, § 3(8)(c) to the Newburyport Retirement Board for a retiree's survivor in an amount that is greater than the amount stated on the letter issued by PERAC. The Board incorrectly added an allowance for two dependents to the amount it billed to Newburyport each year. The cumulative amount overcharged is approximately \$21,000.

Recommendation: Board staff should issue a refund to Newburyport Retirement Board for the amount overbilled.

Board Response: The Board concurs with the recommendation and has refunded the overbilling to Newburyport.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	\$6,730,579	\$5,046,828	\$3,640,181
Fixed Income Securities	12,113,649	12,236,246	16,065,787
Equities	25,153,177	30,858,085	22,930,051
Pooled Domestic Equity Funds	10,291,695	6,651,598	7,995,530
Pooled International Equity Funds	16,707,092	16,498,471	14,283,804
Pooled Domestic Fixed Income Funds	2,525,564	2,472,879	2,842,646
Pooled Alternative Investment Funds	15,938,997	13,504,265	8,018,405
Pooled Real Estate Funds	3,490,081	2,443,731	1,642,956
Hedge Funds	6,621,222	5,313,667	0
PRIT Absolute	0	0	4,721,541
Interest Due and Accrued	98,575	105,829	142,932
Accounts Receivable	107,185	474,948	179,369
Accounts Payable	(88,563)	(62,740)	(90,829)
Total	<u>\$99,689,253</u>	<u>\$95,543,806</u>	<u>\$82,372,373</u>
Fund Balances:			
Annuity Savings Fund	\$25,306,831	\$24,897,046	\$24,457,276
Annuity Reserve Fund	8,193,133	7,921,210	7,525,500
Pension Fund	6,433,049	968,958	1,378,078
Military Service Fund	11,757	14,744	11,731
Expense Fund	0	0	0
Pension Reserve Fund	<u>59,744,483</u>	<u>61,741,848</u>	<u>48,999,789</u>
Total	<u>\$99,689,253</u>	<u>\$95,543,806</u>	<u>\$82,372,373</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$23,832,333	\$6,975,827	\$1,577,652	\$11,526	\$0	\$43,914,066	\$76,311,403
Receipts	2,411,109	213,279	4,888,382	205	584,919	7,973,299	16,071,194
Interfund Transfers	(1,710,021)	1,710,021	2,887,576	0	0	(2,887,576)	0
Disbursements	(76,144)	(1,373,628)	(7,975,532)	0	(584,919)	0	(10,010,224)
Ending Balance (2012)	24,457,276	7,525,500	1,378,078	11,731	0	48,999,789	82,372,373
Receipts	2,352,361	231,337	5,443,369	3,013	697,246	15,391,900	24,119,225
Interfund Transfers	(1,616,870)	1,611,164	2,655,547	0	0	(2,649,841)	0
Disbursements	(295,721)	(1,446,790)	(8,508,035)	0	(697,246)	0	(10,947,792)
Ending Balance (2013)	24,897,046	7,921,210	968,958	14,744	0	61,741,848	95,543,806
Receipts	2,459,127	239,772	10,613,207	15	738,315	1,904,474	15,954,910
Interfund Transfers	(1,701,794)	1,702,020	3,904,615	(3,002)	0	(3,901,839)	0
Disbursements	(347,548)	(1,669,869)	(9,053,732)	0	(738,315)	0	(11,809,463)
Ending Balance (2014)	25,306,831	8,193,133	6,433,049	11,757	0	59,744,483	99,689,253

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	\$2,364,698	\$2,286,917	\$2,198,593
Transfers from Other Systems	42,295	36,771	70,557
Member Make Up Payments and Re-deposits	12,093	2,133	49,183
Member Payments from Rollovers	14,885	500	69,039
Investment Income Credited to Member Accounts	<u>25,155</u>	<u>26,040</u>	<u>23,737</u>
Sub Total	<u>2,459,127</u>	<u>2,352,361</u>	<u>2,411,109</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>239,772</u>	<u>231,337</u>	<u>213,279</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	143,656	138,477	125,106
Pension Fund Appropriation	10,363,884	5,168,091	4,613,334
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>	<u>4,500</u>
Sub Total	<u>10,613,207</u>	<u>5,443,369</u>	<u>4,888,382</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	3,002	194
Investment Income Credited to the Military Service Fund	<u>15</u>	<u>12</u>	<u>12</u>
Sub Total	<u>15</u>	<u>3,013</u>	<u>205</u>
Expense Fund:			
Expense Fund Appropriation	\$266,118	\$247,843	\$245,645
Investment Income Credited to the Expense Fund	<u>472,197</u>	<u>449,403</u>	<u>339,274</u>
Sub Total	<u>738,315</u>	<u>697,246</u>	<u>584,919</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	56,402	58,510	52,710
Interest Not Refunded	154	20	0
Miscellaneous Income	0	78	0
Excess Investment Income	<u>1,847,918</u>	<u>15,333,292</u>	<u>7,920,589</u>
Sub Total	<u>1,904,474</u>	<u>15,391,900</u>	<u>7,973,299</u>
Total Receipts, Net	<u>\$15,954,910</u>	<u>\$24,119,225</u>	<u>\$16,071,194</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	\$124,565	\$31,813	\$53,388
Transfers to Other Systems	<u>222,984</u>	<u>263,909</u>	<u>22,756</u>
Sub Total	<u>347,548</u>	<u>295,721</u>	<u>76,144</u>
Annuity Reserve Fund:			
Annuities Paid	1,666,213	1,446,790	1,373,628
Option B Refunds	<u>3,656</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,669,869</u>	<u>1,446,790</u>	<u>1,373,628</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,968,698	5,111,024	4,811,799
Survivorship Payments	341,045	329,582	315,614
Ordinary Disability Payments	57,736	61,379	45,206
Accidental Disability Payments	799,297	714,703	666,734
Accidental Death Payments	382,183	374,070	326,328
Section 101 Benefits	19,097	18,540	17,349
3 (8) (c) Reimbursements to Other Systems	485,676	451,013	445,982
State Reimbursable COLA's Paid	<u>0</u>	<u>1,447,723</u>	<u>1,346,522</u>
Sub Total	<u>9,053,732</u>	<u>8,508,035</u>	<u>7,975,532</u>
Expense Fund:			
Salaries	83,762	80,918	73,750
Legal Expenses	2,140	2,620	0
Medical Expenses	104	107	366
Travel Expenses	1,619	1,792	1,685
Administrative Expenses	3,559	7,169	3,556
Professional Services	0	4,506	7,950
Actuarial Services	10,575	14,000	0
Education and Training	198	0	0
Management Fees	487,590	437,827	366,976
Custodial Fees	61,979	62,798	50,846
Consultant Fees	60,000	60,000	55,213
Service Contracts	20,260	19,300	18,375
Fiduciary Insurance	<u>6,529</u>	<u>6,209</u>	<u>6,201</u>
Sub Total	<u>738,315</u>	<u>697,246</u>	<u>584,919</u>
Total Disbursements	<u>\$11,809,463</u>	<u>\$10,947,792</u>	<u>\$10,010,224</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
Investment Income Received From:			
Cash	\$167	\$938	\$4,739
Fixed Income	558,214	761,864	824,841
Equities	544,097	420,033	549,787
Pooled or Mutual Funds	<u>1,287,933</u>	<u>1,000,701</u>	<u>909,308</u>
Total Investment Income	<u>2,390,411</u>	<u>2,183,536</u>	<u>2,288,676</u>
Plus:			
Realized Gains	2,383,746	3,739,296	2,323,707
Unrealized Gains	6,351,682	14,474,808	9,856,440
Interest Due and Accrued - Current Year	<u>98,575</u>	<u>105,829</u>	<u>142,932</u>
Sub Total	<u>8,834,003</u>	<u>18,319,933</u>	<u>12,323,079</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(24,535)	(34,260)	(50,959)
Realized Loss	(1,038,839)	(531,983)	(2,224,478)
Unrealized Loss	(7,470,154)	(3,754,210)	(3,683,526)
Interest Due and Accrued - Prior Year	<u>(105,829)</u>	<u>(142,932)</u>	<u>(155,902)</u>
Sub Total	<u>(8,639,358)</u>	<u>(4,463,386)</u>	<u>(6,114,865)</u>
Net Investment Income	<u>2,585,057</u>	<u>16,040,083</u>	<u>8,496,891</u>
Income Required:			
Annuity Savings Fund	25,155	26,040	23,737
Annuity Reserve Fund	239,772	231,337	213,279
Military Service Fund	15	12	12
Expense Fund	<u>472,197</u>	<u>449,403</u>	<u>339,274</u>
Total Income Required	<u>737,139</u>	<u>706,792</u>	<u>576,302</u>
Net Investment Income	<u>2,585,057</u>	<u>16,040,083</u>	<u>8,496,891</u>
Less: Total Income Required	<u>737,139</u>	<u>706,792</u>	<u>576,302</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$1,847,918</u>	<u>\$15,333,292</u>	<u>\$7,920,589</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$6,730,579	6.8%
Fixed Income Securities	12,113,649	12.2%
Equities	25,153,177	25.3%
Pooled Domestic Equity Funds	10,291,695	10.3%
Pooled International Equity Funds	16,707,092	16.8%
Pooled Domestic Fixed Income Funds	2,525,564	2.5%
Pooled Alternative Investment Funds	15,938,997	16.0%
Pooled Real Estate Funds	3,490,081	3.5%
Hedge Funds	<u>6,621,222</u>	<u>6.6%</u>
Grand Total	<u>\$99,572,056</u>	<u>100.0%</u>

For the year ending December 31, 2014, the rate of return for the investments of the Danvers Retirement System was 2.65%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Danvers Retirement System averaged 8.70%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Danvers Retirement System was 8.22%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Danvers Retirement Board has not adopted or submitted any supplemental investment regulations to PERAC for approval.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Danvers Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Danvers Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

August 14, 1985

Teacher aides who are regular employees working a full school year for a minimum of 20 hours or more each week and are permanent employees with a stated hourly or yearly rate of compensation shall be eligible for membership. Excluded from membership are teacher aides who are employed on a one-year basis.

December 28, 1984

To be considered for membership applicant must be regularly employed for 20 hours or more each week and be regularly employed with a stated hourly or yearly rate of compensation.

Creditable Service:

April 17, 2007

Members employed in a full-time capacity will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

Members employed in a part-time capacity throughout his/her entire career in the Town of Danvers will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

A member who has been employed in both a part-time and full-time capacity for the Town of Danvers will receive full-time credit for full-time service, and pro-rated credit for part-time service based on the full-time equivalency of that position.

School year employees (teacher aides, cafeteria workers, secretaries) whose full-time employment only requires them to work 10 months will receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service. Said employees shall be granted one full year of service credit if they return to that position the following September.

Any request by a member to purchase past service will have the rules stated above applied to their past service to determine creditable service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Military Buyback Plan:

March 7, 2005

Purchase 1 Year

Due six (6) months after acceptance date

Purchase 2 Years

50% due six (6) months after acceptance date

50% due eighteen (18) months after acceptance date

Purchase 3 Years

33% due six (6) months after acceptance date

33% due eighteen (18) months after acceptance date

33% due thirty (30) months after acceptance date

Purchase 4 Years

25% due six (6) months after acceptance date

25% due eighteen (18) months after acceptance date

25% due thirty (30) months after acceptance date

25% due forty-two (42) months after acceptance date

Military Buyback Plan (as amended) Any purchase of military service time (pursuant to Chapter 468 of the Acts of 2002) may be paid over a five-year period. These payments may be made in one lump sum or must be paid in full within five-year period from the date of the returned application and before retirement or employment termination.

December 28, 1984

One year credit is to be granted for every (5) years of service for call firemen, up to a maximum of five years of creditable service, provided that such service as call firemen shall only be credited if such call firemen were later appointed as permanent members of the fire department.

Dependent Benefits:

December 28, 1984

Dependent benefits cease at age 21 as stated by G.L. c. 32, § 12B.

Benefits to be paid through date of graduation from college or through last day of schooling if dependent does not complete college, provided that all such dependent benefits must cease at or before age 21, regardless of date of graduation or last day of schooling.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Benefits to be paid through 18th birthday are resumed if dependent enters accredited educational institution with reimbursement made for summer months.

Contact the parent/guardian to provide the board with certification of attendance from the school and inform the parent/guardian of their responsibility to keep the board informed regarding the dependent's student status.

Veteran's Allowances Policy for determining annual wage for computing allowance under Veteran's Act, G.L. c. 32, § 56:

Shift differential to be computed on the actual number of shifts worked in the 12 month period preceding the date of retirement.

Travel Regulations:

May 15, 2003

The Danvers Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations are available upon written request or on the PERAC website <http://www.mass.gov/perac/Danvers>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Corinna L. Grace

Appointed Member: Wayne P. Marquis, Chairperson Term Expires: 11/26/19

Elected Member: Dana M. Hagan Term Expires: 6/30/17

Elected Member: Joseph L. Collins Term Expires: 6/30/19

Appointed Member: Stephen Swanson Term Expires: 10/28/19

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The Board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Stone Consulting, Inc. as of January 1, 2014.

The actuarial liability for active members was	\$69,990,176
The actuarial liability for inactive members was	899,322
The actuarial liability for retired members was	<u>91,310,279</u>
The total actuarial liability was	\$162,199,777
System assets as of that date were (actuarial value)	<u>89,955,182</u>
The unfunded actuarial liability was	<u>\$72,244,595</u>
 The ratio of system's assets to total actuarial liability was	 55.5%
As of that date the total covered employee payroll was	\$24,485,565

The normal cost for employees on that date was 9.0% of payroll

The normal cost for the employer was 3.9% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2014 (Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$89,955	\$162,200	\$72,245	55.5%	\$24,486	295.0%
1/1/2012	\$83,875	\$143,155	\$59,280	58.6%	\$22,911	258.7%
1/1/2010	\$84,018	\$130,372	\$46,354	64.4%	\$23,028	201.3%
1/1/2009	\$75,218	\$126,645	\$51,427	59.4%	\$22,650	227.1%
1/1/2007	\$80,142	\$112,391	\$32,249	71.3%	\$20,383	158.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	15	6	10	14	7	12	18	20	12	12
Ordinary Disability	0	1	0	0	0	1	1	1	0	0
Accidental Disability	0	2	1	0	1	0	2	3	3	2
Total Retirements	15	9	11	14	8	13	21	24	15	14
Total Retirees, Beneficiaries and Survivors	425	426	420	413	384	381	386	392	396	405
Total Active Members	452	454	451	464	454	455	452	462	479	476
Pension Payments										
Superannuation	\$3,863,768	\$4,176,199	\$4,185,004	\$4,461,268	\$4,268,150	\$4,364,976	\$4,256,009	\$4,811,799	\$5,111,024	\$6,968,698
Survivor/Beneficiary Payments	166,183	164,852	195,077	190,180	221,991	226,026	255,264	315,614	329,582	341,045
Ordinary Disability	64,653	64,115	45,247	45,247	51,537	48,479	32,679	45,206	61,379	57,736
Accidental Disability	487,461	478,258	558,270	555,826	698,047	691,151	665,065	666,734	714,703	799,297
Other	1,356,590	1,444,977	1,466,337	1,536,192	1,780,697	1,895,487	2,392,806	2,136,180	2,291,347	886,956
Total Payments for Year	\$5,938,655	\$6,328,401	\$6,449,935	\$6,788,713	\$7,020,422	\$7,226,119	\$7,601,823	\$7,975,532	\$8,508,035	\$9,053,732

PERAC

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

December 19, 2017

Wayne P. Marquis, Chairman
Danvers Retirement Board
One Sylvan Street
Danvers, MA 01923

REFERENCE: Report of the Examination of the Danvers Retirement Board for the three-year period from January 1, 2012 through December 31, 2014.

Dear Chairman Marquis:

The Public Employee Retirement Administration Commission has completed a follow-up review of the finding and recommendation contained in its audit report of the Danvers Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process. They are designed to ensure the timely implementation of corrective action for the recommendations cited in that report. The examination addressed one specific finding and recommendation included in the audit report and other matters that were discussed with the Board at the conclusion of our audit. The results are as follows:

1. The Audit Report cited a finding that since 1996, the board staff had been issuing 3(8)(c) bills to the Newburyport Retirement Board for a retiree's survivor in an amount greater than the amount of the PERAC 3(8)(c) letter. The cumulative variance amounts to approximately \$21,000.

Follow-up Result: We verified that the amount overbilled was refunded to the Newburyport Retirement Board. Finding is resolved.

The other matters that were discussed with the Board at the completion of the audit were also reviewed and are resolved.

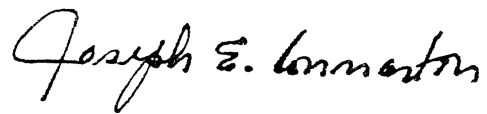


December 19, 2017
Danvers Follow up
Page Two

The Commission wishes to acknowledge the significant effort demonstrated by the staff of the Danvers Retirement Board to correct the deficiencies cited in the most recent examination of the system.

We thank you for your cooperation in resolving this important matter.

Sincerely,

A handwritten signature in black ink, reading "Joseph E. Connarton". The signature is written in a cursive style with a large, stylized "J" and "C".

Joseph E. Connarton
Executive Director

CS/tal
cc: Danvers Retirement Board Members